New Nouveau Brunswick

Labour Market Information Monthly

May 2011 Edition *Issue 5 Volume 8*

Retiring with debt*

This Month

Retiring with debt

Key Labour Force Statistics

The Industry Report

Debt is most often associated with younger adults, as they borrow to finance their education and purchase housing and vehicles. However, research from the United States suggests that an increasing number of people, both in pre-retirement and retired, are now struggling with debt, as both the percentage with debt and debt levels have risen for those age 55 and over. This paper investigates the debt-holding situation of older Canadians.

With funding for retirement shifting onto the individual, most Canadians believe they must take an active role in planning for the event. Indeed, among those age 25 to 64, 81% reported they were preparing financially for their retirement. However, only 46% of those preparing for retirement knew how much savings they would need to maintain their standard of living.

Debt management is a recurring theme in retirement planning literature. Debt may be problematic for older workers if not paid off before retirement since repayment can be more difficult on a reduced income. On the other hand, carrying debt into retirement may not necessarily be an issue if repayment is manageable and the household is financially sound.

Financial planning is particularly important for women for several reasons. Compared with men, women have a longer life expectancy and they usually retire having spent fewer years in the labour market with less earned and saved. Divorce or widowhood during this period can also affect economic well-being.

The 2009 Canadian Financial Capability Survey (CFCS) provides information on the income, wealth and debt of retired Canadians, combined with self-assessments of their financial situation and indicators of financial literacy. This article examines the proportion, type, and level of debt among almost 5 million retirees age 55 and over. Logistic regression is used to examine the personal, demographic and economic factors that influence the likelihood of carrying consumer or mortgage debt in retirement. The financial situation of indebted retirees is also examined along with three indicators of financial security among retirees.

One in three retirees holds some form of debt

Debt can include mortgages; student, payday or other loans; outstanding balances on credit cards or lines of credit; or any other unpaid debt or liability. Among those age 55 and over, one-third of the retired and two-thirds of the not-yet-retired report having some form of debt. The proportion holding debt in retirement is about one-third for both fully retired couples (where both partners are retired) and for people living on their own. The proportion of couples with debt is higher when one spouse is retired (61%) or when neither spouse is retired (75%). Research has found that dual-earner couples tend to have higher average debt per person, relative to income, possibly due to their sense of security from having two incomes.

Retirees with debt owe less than their non-retired counterparts

Those retired and in debt owe a median amount of $19,000 compared with their non-retired counterparts who owe $40,000. Retired singles owe less

** Katherine Marshall, Perspectives on Labour and Income, April 2011, Statistics Canada.*

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than fully retired couples—$13,000 versus $20,000. Not-retired couples were the most likely to have some form of debt and they also had the highest median value owing ($50,000).

Over one-half of indebted retirees owe less than $25,000

The remainder of the paper focuses on retired individuals and couples where both partners are retired. Of those owing money, the type and level of debt varies little between those in a couple and those on their own. Roughly 60% of retired couples and singles carry consumer debt only, with the remaining 40% almost equally split between those with mortgage debt only and those with both forms of debt.

Among retirees, average debt was $60,000, while the median (the value where half owe more and half owe less) was $19,000. This large difference between the median and the mean is characteristic of a skewed distribution: one wherein a small group carries a high debt load while most owe smaller amounts.

Of retirees with debt, 1 in 4 owes less than $5,000. Debt in this range may simply be related to using credit as a convenience or as promotional financing. For example, some big-ticket items can be purchased on credit with no payments or interest for up to one year. One-third of households with debt owe between $5,000 and $24,999, and another one-quarter owe between $25,000 and $99,999. The remaining 17% of households carry a debt of $100,000 or more.

Who's likely to hold debt in retirement?

This section assesses which socio-economic and demographic factors are associated with the likelihood of carrying mortgage or consumer debt. Age is a primary factor since it reflects the evolution of personal finances over the life cycle. Level of education, sex, family and immigrant status, urban living and region are included as they may be associated with different housing choices and costs, as well as variations in personal financial behaviours. Finally, income, net worth and home ownership may also be linked to the incidence of debt, either positively, as income and collateral enable further borrowing, or negatively, since they may allow individuals to pay down debt faster or avoid it altogether.

In order to determine which factors better predict the incidence of holding debt, the variables mentioned above are included in a logistic regression model. This technique estimates the relationship of each variable with the probability of having debt while holding all other variables constant.

The likelihood of debt falls with age

One possible factor associated with holding debt in retirement is age. The further along the life cycle, the more time someone has had to repay any outstanding debts. Indeed, among retirees age 75 and over, only 20% had some form of debt, compared with 48% of those age 55 to 64. Older retirees were found to be significantly less likely to carry debt even after controls for other factors in the regression model were applied.

Higher education positively linked with having debt

As the level of schooling goes up, so does the incidence of holding debt. While 26% of those with less than a high school diploma had some form of debt, 36% or more with at least a high school diploma had debt. The regression results indicate

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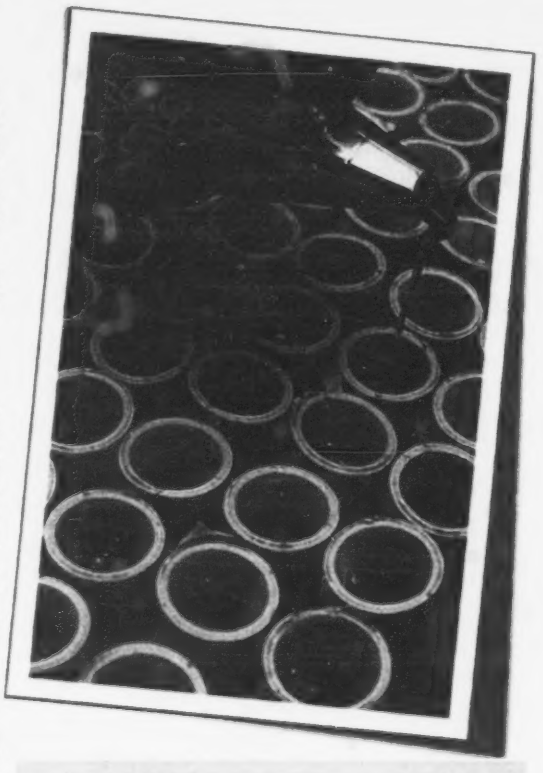
that only the difference between retirees without a high school education and those with high school or some postsecondary schooling was statistically significant. Other research has shown that higher education is associated with an open or positive attitude towards borrowing.

As a person's financial knowledge score increases, so does the likelihood of having debt (scores were calculated by adding the number of correct answers reported on a 14-question financial knowledge quiz). Understanding of financial concepts may be associated with borrowing to finance investments or smooth consumption.



Divorced most at risk of debt

Of the almost 5 million retirees in the study, 3.0 million lived with a spouse, 1.2 million were widowed, 500,000 were divorced and 300,000 had never married. Divorcees, at 43%, had the highest rate of holding debt followed by 35% for couples, 30% for the never-married and 28% for widows/widowers. Retired divorcees were found to be significantly more likely (1.3 times) to carry debt than those living in a couple after controls for other factors were applied. The financial cost of divorce, including legal fees, the division of properties and assets, and the setting up of separate households, has short-term economic consequences for both partners, which likely contributes to increased borrowing.

Home ownership and higher income linked to having debt

Among retirees, 8 in 10 own a home. Homeowners are 1.4 times more likely to hold debt than non-owners, but not simply because of a mortgage. Overall, 37% of homeowners carry some debt, including 9% who have only a mortgage, 18% who have only consumer debt, and 10% who have both a mortgage and consumer debt. Overall, 28% of homeowners have some consumer debt compared with 23% of non-owners. A similar association was found among older Americans: "As expected, having mortgage debt was a significant and positive factor in the probability of holding consumer debt". Although houses can be expensive to maintain, homeowners have invested in a valuable, often-appreciating asset. Furthermore, there are financial gains in mortgage-free home ownership since rent does not have to be paid.

Individuals in households with an annual income of less than $25,000 were less likely to hold some form of debt compared with those in higher income groups. However, high net worth was also associated with a lower probability of debt. After controls for other factors were applied, retirees with a household net worth of $400,000 or more were found to be less likely to hold debt than the reference group with a net worth of less than $75,000.

Several other demographic and geographic factors were not significantly related to debt among retirees, including immigrant status, region and Census Metropolitan Area.

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Holding debt is often assumed to affect financial security. One way to determine perceptions of financial well-being is to assess responses to questions about personal finances. The next section examines the personal and financial characteristics of all retirees in conjunction with indicators of financial security.

Most retirees feel finances meet pre-retirement expectations

From a subjective point of view, the vast majority of retirees give a positive report when asked about their economic well-being. Almost 8 in 10 believe that their financial situation is as expected or better than before they retired; similarly, 86% say their income is sufficient to cover monthly expenses; and 82% report that keeping up with bills and other financial commitments is not a problem. When all personal and financial characteristics of retirees are considered together in logistic regression models, certain variables consistently increase or decrease the positive response rate to at least two, and usually all three, financial security questions.

Positive view of financial security increases with age

Retirees age 75 and over are significantly more likely to report positively on their economic situation than those age 55 to 64 even after controls for variables such as level of income and debt are applied. For example, 83% of the older cohort felt they were financially as well off as or better than expected before retirement compared with 76% of the younger group. Similarly, the older cohort is 1.3 times more likely than the younger one to say their income is sufficient for their expenses. These findings may be related to the change in consumption and spending patterns as people age.

Divorce related to financial insecurity

Family status is also a factor related to financial security. As opposed to those who never married or are widowed, the divorced are the only group to be significantly less likely than couples to say their income is sufficient for monthly expenses. Their relatively lower reporting of financial security may be associated with their overall financial situation. Although all catego-

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ries of individuals not living with a partner were financially less well-off than couples, the divorced had the lowest median annual income and lowest median net worth. The findings suggest that marital dissolution by divorce may have a long-term negative effect on financial security in retirement. "Whether divorce interrupts the savings process or destroys assets, it is unlikely that most individuals will be able to save enough in later life to overcome the loss."

Any level of debt may increase financial insecurity

Overall, 82% of retirees without debt report their financial situation to be as expected or better than before retirement, whereas only 70% of those with debt report the same outcome. Similarly, 89% of debt-free retirees claim that their income is sufficient for monthly expenses, compared to 79% or less for those with any level of debt. Also, keeping up with bills and other financial commitments is not a problem for 89% of debt-free retirees, a figure that falls to 68% for those with any amount of debt.

Moreover, all levels of debt appear to significantly affect perceptions of financial vulnerability. Debt repayment amounts vary depending on repayment schedules and interest rates, and can be independent of the total amount owing. In other words, it is not necessarily the size of debt that has the potential to strain a monthly budget, but the repayment amount in relation to other expenses and income. However, even if debt repayments are manageable, the monthly financial obligation and outstanding balance may increase the perception of financial insecurity.

Relatively low income and net worth reduce sense of financial security

Retirees with less than $25,000 in annual household income are significantly less likely than those with higher incomes to give positive responses to the three financial security questions. After controls were applied for net wealth, having a lower income (whether with or without debt) was found to increase the perception of financial insecurity. For example, 75% of those with a household income of less than $25,000 say their income is sufficient to cover monthly expenses compared with 85% of those in the $25,000 to $49,000 income range.

Similarly, retirees with a household net worth of under $75,000 are not as likely to express a high rate of financial security as those with higher levels of net worth.

Conclusion

Using data from the Canadian Financial Capability Survey, this study found that, in 2009, 1 in 3 retired individuals age 55 and over, whether single or in a couple, held mortgage or consumer debt. Since retirement usually coincides with a drop in income and an increased reliance on savings, debt management is a frequently cited component of retirement planning.

The median amount owing for retirees with debt was $19,000. At the high end of the debt scale, 17% owed $100,000 or more. The likelihood of holding debt decreased with age but increased with household income and financial knowledge. Individuals with some post-secondary education were more likely to hold debt than those with less schooling, while households with a high net worth were less likely to have debt. Being divorced was a strong correlate of holding debt among retirees.

The majority of retirees report that their finances are what they had expected them to be prior to retirement, that their income is sufficient to cover expenses, and that they are able to stay on top of bills and keep up with their financial commitments. After controls for personal and financial factors were applied, those with any level of debt were found to be more likely to respond negatively to these questions. For example, while 9 in 10 retirees without debt reported they had no trouble keeping up with bills and other financial commitments, 7 in 10 with debt reported this to be the case.

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Roughly 1 in 10 retirees was divorced. This group had lower positive response rates for all three financial security questions, even after controls were applied for other factors, including debt. For example, 65% of the divorced reported that their financial situation was as good as or better than they expected before retirement, compared with rates of 77% or greater for those who were in a couple, were widowed or never married. The substantially lower-than-average income and net worth of the divorced coincide with their poorer perception of their financial condition.

Immigrants, as well as those having relatively low income or net worth, also report lower perceptions of financial security.

The incidence and level of debt among the pre-retired population age 55 and over were higher than among retirees. Two-thirds of pre-retirees carry mortgage or consumer debt with a median value of $40,000.

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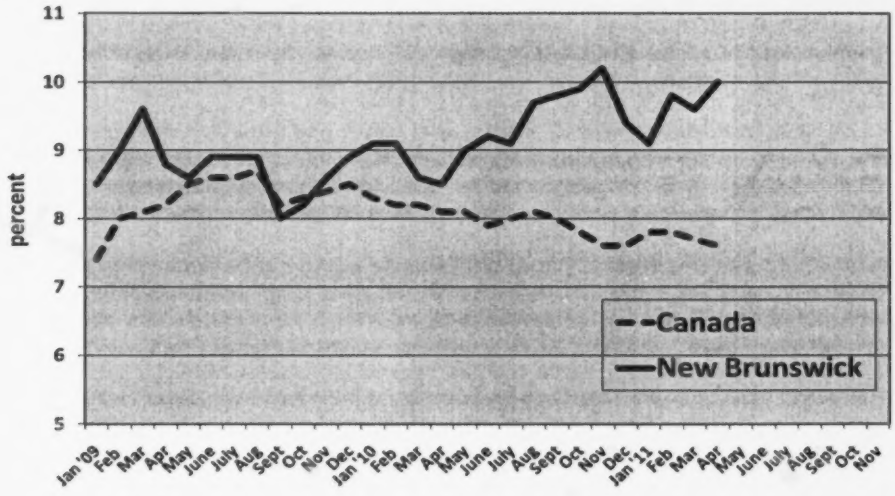
KEY LABOUR FORCE STATISTICS FOR NEW BRUNSWICK (Source: Statistics Canada Labour Force Survey)

New Brunswick	YTD	April '11	March '11	April '10
Labour Force	390,900	391,900	391,500	393,000
Employed	353,300	352,800	354,000	359,400
Unemployed	37,700	39,100	37,600	33,600
Unemployment Rate	9.6%	10.0%	9.6%	8.5%
Participation Rate	63.2%	63.3%	63.3%	63.8%
Employment Rate	57.1%	57.0%	57.2%	58.3%

CANADA COMPARED TO NEW BRUNSWICK

In April, Canada's unemployment rate was 7.6%, 0.1 of a percentage point lower than last month and 0.5 of a percentage point lower than the same month last year. New Brunswick's rate of 10.0% was 0.4 of a percentage point higher than last month and 1.5 of a percentage point higher compared to the same month last year, when it stood at 8.5%.

UNEMPLOYMENT RATES IN NEW BRUNSWICK AND CANADA



Source: Statistics Canada Labour Force Survey

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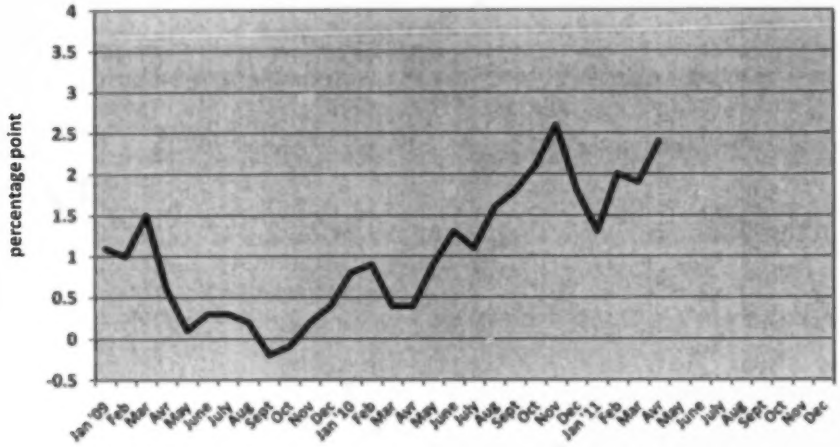
CANADA COMPARED TO NEW BRUNSWICK (continued)

The gap between the national and provincial rates was 2.4 percentage points in April.

DIFFERENCE IN UNEMPLOYMENT RATES IN NEW BRUNSWICK AND CANADA

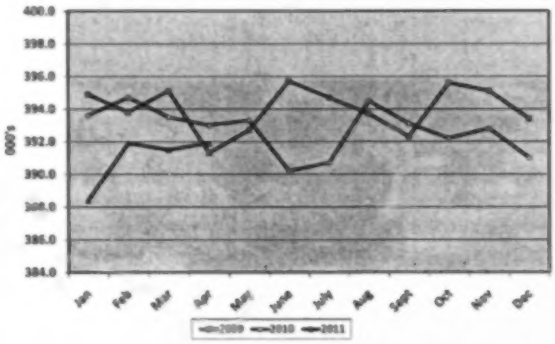


Source: Statistics Canada Labour Force Survey

THE LABOUR FORCE

New Brunswick's labour force stood at 391,900 in April. This was an increase of 400 over the previous month, but a decrease of 1,100 over the same month last year.

THE SIZE OF THE LABOUR FORCE



Source: Statistics Canada Labour Force Survey

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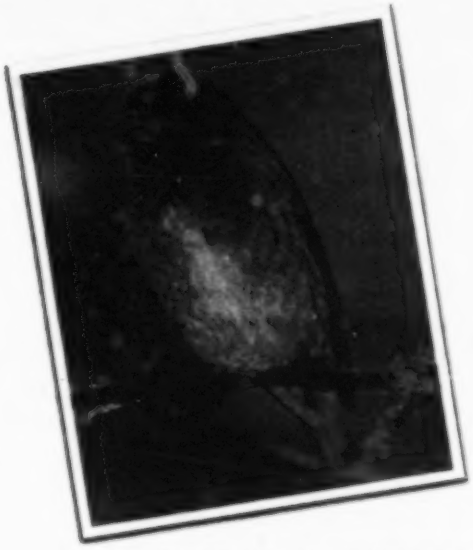
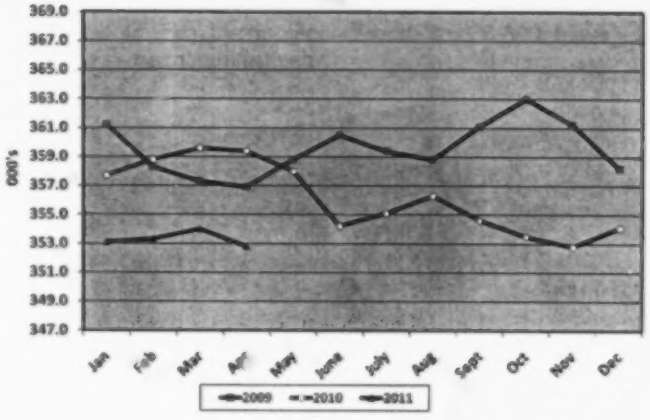
EMPLOYMENT

There were 352,800 people working in April. This was 1,200 fewer than the previous month and 6,600 fewer than the same month last year.

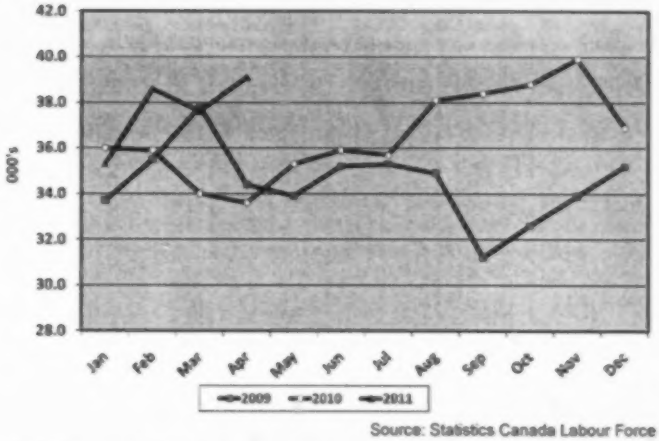


EMPLOYMENT IN NEW BRUNSWICK



Source: Statistics Canada Labour Force Survey

UNEMPLOYMENT IN NEW BRUNSWICK



Source: Statistics Canada Labour Force Survey

UNEMPLOYMENT

There were 39,100 people unemployed and seeking work in April. This is 1,500 more than what was recorded the previous month and 5,500 more than the same month last year.

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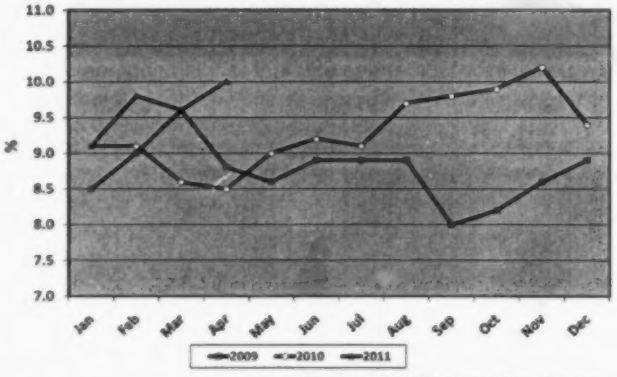
THE UNEMPLOYMENT RATE

New Brunswick's unemployment rate of 10.0% in April was 0.4 of a percentage point higher than the previous month and 1.5 of a percentage point higher than the same month last year.

THE UNEMPLOYMENT RATE IN NEW BRUNSWICK



Source: Statistics Canada Labour Force Survey

THE ECONOMIC REGIONS

Statistics Canada reports labour force statistics for the economic regions as three month moving averages of actual (not seasonally adjusted) data.

April '11	Economic Regions				
	Northeast	Southeast	Southwest	Central	Northwest
Labour Force	69,700	110,800	93,600	71,100	37,800
Employment	56,900	99,100	86,000	65,000	33,700
Unemployment	12,800	11,700	7,700	6,100	4,100
Unemployment Rate	18.4%	10.6%	8.2%	8.6%	10.8%
Participation Rate	53.7%	64.7%	65.0%	65.5%	58.0%

Economic Regions	[illegible] '11		April '11		April '10	
	Emp.	UR	Emp.	UR	Emp.	UR
Northeast	56,600	17.7%	56,900	18.4%	56,600	16.9%
Southeast	98,900	10.2%	99,100	10.6%	101,300	7.6%
Southwest	85,700	7.3%	86,000	8.2%	83,500	9.1%
Central	66,900	7.5%	65,000	8.6%	69,500	7.1%
Northwest	34,000	10.0%	33,700	10.8%	35,800	10.5%

On a year-over-year basis (April 2011 compared to April 2010), employment increased in the Southwest (+2,500) and Northeast (+300) regions while it decreased in the Central (-4,500); Southeast (-2,200); and Northwest (-2,100) economic regions.

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THE INDUSTRY REPORT—LFS Release May 2011

- Total industrial employment was down by 6,600 jobs (or -1.8%) in April of 2011 over April of 2010.
- Employment in the goods-producing sector was lower by 100 jobs in April of 2011 over April of 2010; overall employment in that sector stood at 82,400 in April of 2011.
- Employment in the services-producing sector was lower by 6,400 jobs in April of 2011 over April of 2010; overall employment in that sector stood at 270,500 in April of 2011.

Employment growth on a year-over-year basis was strongest in the following sectors*:

Professional, Scientific, and Technical Services
- Current employment level (April 2011): **17,600 (up 19.7% or 2,900 jobs over April 2010)**
- Record employment level (March 2008): **18,200**
- Number of consecutive months (including April 2011) with year-over-year growth: **5**
- Number of months with year-over-year growth in the past 24 months: **11**
- Important considerations: ***Increased exploration and development activity in the Mining and Oil and Gas sectors in the province and the rest of Atlantic Canada may be fueling this growth.***

Finance, Insurance, Real Estate, and Leasing
- Current employment level (April 2011): **17,400 (up 12.3% or 1,900 jobs over April 2010)**
- Record employment level (March 2011): **18,300**
- Number of consecutive months (including April 2011) with year-over-year growth: **5**
- Number of months with year-over-year growth in the past 24 months: **15**
- Important considerations: ***Relatively low interest rates and increased confidence in global financial markets have kept New Brunswickers spending and investing, particularly in some big ticket items (housing and automobiles); increased weather-related damage has increased activity in the insurance sector.***

Public Administration
- Current employment level (April 2011): **25,900 (up 5.3% or 1,300 jobs over April 2010)**
- Record employment level (March 2009): **28,100**
- Number of consecutive months (including April of 2011) with year-over-year growth: **7**
- Number of months with year-over-year growth in the past 24 months: **12**
- Important considerations: ***Federal government hirings in the province may be contributing to this growth.***

* Includes the top three growth sectors, and/or any sectors that posted a 10% or greater (year-over-year) increase in employment.

Employment growth on a year-over-year basis was weaker in the following sectors:**

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THE INDUSTRY REPORT—con't

Other Services

- Current employment level (April 2011): **14,400 (down 16.3% or 2,800 jobs over April 2010)**
- Record employment level (March 1999): **19,800**
- Number of consecutive months (including March of 2011) with year-over-year losses: **5**
- Number of months with year-over-year losses in the past 24 months: **19**
- Important considerations: ***This is a diverse industry grouping, making it difficult to pinpoint the sub-category which is producing the losses.***

Information, Culture and Recreation

- Current employment level (April 2011): **11,300 (down 15.0% or 2,000 jobs over April 2010)**
- Record employment level (September 1999): **15,300**
- Number of consecutive months (including March of 2011) with year-over-year losses: **4**
- Number of months with year-over-year losses in the previous 24 months: **7**
- Important considerations: ***This is a diverse industry grouping, making it difficult to pinpoint the sub-category which is producing the losses.***

Transportation and Warehousing

- Current employment level (April 2011): **17,300 (down 13.9% or 2,800 jobs over April 2010)**
- Record employment level (June 2005): **22,000**
- Number of consecutive months (including March of 2011) with year-over-year losses: **7**
- Number of months with year-over-year losses in the last 24 months: **15**
- Important considerations: ***Diminishing federal/provincial stimulus spending on public infrastructure projects, limited private sector spending on major projects, and rising fuel prices are likely all having a negative impact on employment in this sector.***

** Includes the bottom three growth sectors and/or all sectors that posted a 10% or greater (year-over-year) decrease in employment

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